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Germany's Controlled Economy

BY JOHN C. deWILDE

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DESPITE signs of growing stress and strain, the German economy has continued to function at a high rate of activity during the last few years.¹ Confounding the prophets of collapse, industrial output and employment have risen far above pre-depression levels. Many industries are operating in excess of their optimum capacity, and the labor supply has become increasingly stringent. The slump experienced by most countries in the last year and a half has failed so far to check the continuous upswing in business which has taken place since 1932. During 1938 industrial production was 26 per cent higher than in 1929 and 138 per cent above 1932. The number of people gainfully employed, excluding those in the army and labor service, averaged 19,564,000—some seven million more than in 1932 and over 9 per cent more than the average for 1929.² By the end of 1938 the total of registered unemployed had dropped to 456,000—a figure including a considerable number no longer fit for work. The government is experiencing serious difficulty in finding enough labor for all the tasks it has undertaken.

The maintenance of this business boom in Germany is not as miraculous as it appears. It must be attributed, above all, to the enormous expenditure of public funds and the government's power to mobilize all the resources of labor and capital, industry and agriculture. Judging from the best available published and private sources, the national, provincial and local governments have spent during the last six years an aggregate sum of 60,000,000,000 Reichsmarks above expenditures in 1932-1933. According to a prominent public official, the disbursements of all governmental and semi-public bodies—including presumably the Nazi party, the Labor Front and similar organizations—amounted in 1937-1938 to 35-40 billion marks. With the additional outlay of publicly owned utilities and industries, the total reaches 45 billion marks, or two-

thirds of the national income.³ Naturally this money has filtered through the entire economy and stimulated almost all branches of enterprise.

The Nazis have tackled many tasks simultaneously. Their primary objective has been to make Germany strong and invincible. Not only have they lavished large sums on the army, navy and air force, but under their direction billions of marks have been invested in plant and machinery to increase the domestic output of such vital raw materials as mineral oil, rubber, metals and textile fibres. For the rapid construction of fortifications in the west, vast quantities of material and man power were mobilized in 1938. By September this task alone engaged some 360,000 laborers, exclusive of 100,000 men of the labor service and an unspecified number of soldiers.⁴ The construction of a comprehensive network of express highways, which had already entailed an expenditure of three billion marks by the end of last year, has kept another 100,000 men directly at work.⁵ Vast projects for the rebuilding of Berlin and other cities of the Reich have also been launched. Today public contracts account for 80 per cent of the total construction,⁶ as compared with 55 per cent in 1932 and 30 per cent in 1929.⁷ While the number of people directly employed by the authorities on public works does not bulk large, millions work to fill government orders, particularly in the metallurgical, chemical and building industries.

All this work has been facilitated by a totalitarian government which has been able to direct the productive energies of the country into whatever channels it chose. Undeterred by liberal democratic doctrines concerning the sanctity of private property,

1. For an earlier review of the German economic situation, cf. John C. deWilde, "The German Economic Dilemma," *Foreign Policy Reports*, March 15, 1937.

2. *Statistical Supplement, Weekly Report of the German Institute for Business Research*, February 9, 1939.

3. Cf. Rudolf Brinkmann (State Secretary in the Ministry of Economics), *Staat und Wirtschaft* (Berlin and Stuttgart, W. Kohlhammer Verlag, 1938), p. 23.

4. Reichs-Kredit-Gesellschaft, *Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, p. 55.

5. In the middle of 1938 the total was 115,000. Cf. Institut für Konjunkturforschung, *Halbjahrsberichte zur Wirtschaftslage, 1938-1939*, Heft 2, p. 153.

6. H. Marschner, "Die Schlüsselstellung der öffentlichen Aufträge," *Der Deutsche Volkswirt*, December 16, 1938.

7. *Ibid.*, June 10, 1938.

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"due process of law" and the freedom of the individual, the régime has dictated prices, wages and profits, and conscripted labor and capital for its objectives. For purposes of discipline labor has been enlisted in a National Socialist Labor Front; industry has been organized in the Reich Industrial Organization which has been instrumental in enforcing the government's demands on business; and the entire farming community has been included in the Reich Agricultural Estate to spur the farmers on to ever greater production of foodstuffs and raw materials. The party hierarchy, efficiently aided by the secret police, has also seen to it that no individual and no group steps "out of line."

A RISING NATIONAL INCOME

What has all this additional employment meant to the Germans? According to official reports, their aggregate income in 1937 amounted to 69.4 billion marks, as compared with 47.4 and 74.5 billion in 1932 and 1929 respectively.⁸ The gross earnings of workers and salaried employees rose from 25.7 to 38.8 billion marks in the period 1932 to 1937, and probably attained 41.5 billion in 1938.⁹ Even after deducting 2.35 billion representing the decline in unemployment assistance,¹⁰ there still remains an increase of 10.75 billion in five years. While the larger part of this increase is attributable to a sharp rise in employment, individual incomes are also higher in many cases. An examination of the number of contributions made to the old-age insurance fund discloses that the percentage falling in the wage category of over 36 marks per week rose from 19.1 per cent in 1932 to 29.8 per cent in 1937, while the proportion in the much lower class of 12 to 18 marks per week dropped from 22.7 to 13.2 per cent.¹¹

Extension of the average working day in industry from 6.91 to 7.75 hours¹²—an increase of 12 per cent—was largely responsible for the growth in earnings. Hourly wages, however, have also risen in many industries. Although the government has stressed wage stability in order to restrict imports for consumption and the cost of armament, the wages it has fixed have until recently¹³ always rep-

resented minima. In practice the shortage of labor, particularly of skilled workers, engineers and the higher grades of salaried employees, has induced employers to pay more. The rise has been most marked in the building, iron and steel, chemical and electrotechnical industries. For all wage earners, the hourly rate of pay rose only a little more than 4 per cent from 1932 to 1937.¹⁴ This increase has taken place despite the fact that the re-employment of millions of people, including a disproportionately large number of the unskilled and less efficient workers, tends to depress average wages.

In comparison with the pre-Hitler era, a larger share of the German's income is absorbed today by the government, the Nazi party and its various formations, and a multiplicity of semi-official organizations. Taxes and compulsory social insurance contributions took 33.5 per cent of the national income in 1937, as compared with 30.6 in 1932.¹⁵ The total legal deductions from wages for poll and wage taxes, as well as compulsory social insurance premiums, rose from 12.5 to 13.5 per cent in this same period. The Reich Statistical office estimates that, in addition, the average worker pays about 1.5 per cent to the Labor Front, but probably less than one per cent in contributions to the Nazi Welfare Organization, the Winter Relief Fund and the like.¹⁶ This would raise the total to 15 or 15.5 per cent. For a skilled worker with an annual income of 2,400 Reichsmarks per year and a family consisting of a wife and two children, payments in taxes and contributions may total about 22 per cent. His annual expenditures might be distributed as follows:¹⁷

	Reichsmarks	Percentage of Income
Direct taxes on income	82.66	3.44
Indirect taxes on consumption	124.66	5.19
Contributions to social insurance	238.68	9.94
Membership in Nazi party and affiliated organizations,* contributions to Winter Relief Fund, Hitler Youth, etc.	81.90	3.41
TOTAL	527.90	21.98

*Including the Labor Front, the National Socialist Welfare Organization, the Reich Air Defense League and the Association for Germans Abroad.

13. Cf. p. 304.

14. "Die Entwicklung der Arbeitsverdienste in den letzten zehn Jahren," *Wirtschaft und Statistik*, No. 4, 1938. In industry gross hourly earnings rose 7.5 per cent in the four-year period ending March 1938. Cf. *Halbjahrsberichte zur Wirtschaftslage*, 1938-1939, Heft 2, cited, p. 120.

15. Brinkmann, *Staat und Wirtschaft*, cited, p. 23.

16. "Die Entwicklung der Arbeitsverdienste in den letzten zehn Jahren," cited.

17. Data obtained from Charlotte Lorenz, "Verbrauchshaushalt und öffentlicher Haushalt," *Soziale Praxis*, October 1, 1938.

8. *Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, cited, p. 58.

9. *Ibid.*, p. 60.

10. The amount paid for unemployment relief fell from 2.84 billion marks in 1932-1933 to 0.47 billion in 1937-1938. Cf. Otto Barberino, "Veränderte Struktur des öffentlichen Haushalts," *Der Wirtschafts-Ring*, July 22, 1938.

11. Cf. "Wandlungen in der Schichtung der Arbeiter- und Angestellteneinkommen," *Vierteljahrshefte zur Statistik des deutschen Reiches*, No. 3, 1937. Supplemented by data from the *Reichsarbeitsblatt*.

12. Cf. *Weekly Report of the German Institute for Business Research*, January 26, 1939.

Not all of these additional contributions represent a net loss to the worker. Dues in the Labor Front are probably no higher on the average than those in the former labor unions, although the latter included only 6.5 million members against over 20 million for the former. The Labor Front, too, has not been altogether unsuccessful in securing some amelioration of labor conditions. It has been instrumental—particularly in the smaller enterprises which were often socially unprogressive—in improving lighting and sanitation, in obtaining lunch rooms and sport facilities for workers, and in securing longer paid vacations as well as additional compensation in case of maternity, sickness and the like.¹⁸ Through its “Strength through Joy” department, the world’s biggest theatre and travel agency, the Labor Front provides millions of its members with extraordinarily cheap vacation trips and facilitates admission to theatres and concerts.¹⁹

People living largely from investments in real property or stocks and bonds have not fared as well as those deriving their income from wages and salaries. While their income rose from 3.1 billion marks in 1932 to 3.8 billion in 1937, their share in the national income dropped from 6.6 to 5.4 per cent.²⁰ Government control of rents, reductions in interest rates and the limitation of dividend payments to 6 (in some cases, 8) per cent of nominal capital, were responsible for this development. As production increased and plants were utilized more fully, industry did in fact earn handsome profits; yet these earnings had to be reinvested in business, or were in many cases conscripted for the Four Year Plan. Moreover, business was subjected increasingly to government intervention which converted the old type of entrepreneur more and more into a servant of the National Socialist state. Small and medium-sized enterprises often suffered in comparison to big business, because they did not profit to the same extent from government orders and could not afford the staff necessary to cope with the maze of bureaucratic regulations.

18. Voluntary expenditures of industrial concerns for social purposes have accordingly risen. For some indication of their extent, cf. “Freiwillige Sozialleistungen,” *Frankfurter Zeitung*, May 1, 1938.

19. In 1937 203,000 people from Berlin alone are said to have participated in vacation journeys and ocean trips, while 258,000 took part in one-day outings and week-end excursions arranged by the Labor Front. Theatrical presentations arranged by the same organization were reported to have drawn 2,519,369 visitors. Cf. Günther Adam, “Aus der Arbeit der N.S. Gemeinschaft Kraft durch Freude im Gau Berlin,” *Monatshefte für N.S. Sozialpolitik*, June 25, 1938.

20. *Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, cited, p. 58.

THE STANDARD OF LIVING

On the whole the net income of the German people is larger today than in the depression years, but smaller than in 1929. Their voluntary savings rose from an estimated 634 million marks in 1933 to about 3,724 million²¹ in 1937, and continued to increase during 1938.²² This growth in savings is not exclusively attributable to larger incomes but is symptomatic as well of the limitations placed on consumption. The Germans can and do spend more on amusement and relaxation, as is evidenced by crowded theatres, cinemas and cafés, and by increased holiday travel. Yet in many cases they cannot buy foodstuffs and other goods in the variety, quantity and quality they desire, because domestic production is so largely concentrated on armament, public building and road construction, and priority is given to imports of raw materials for these purposes.²³ People buy more of those things which can be produced at home or easily imported from certain countries, and have to limit their purchases of those articles or foods in which domestic production is inadequate and where the deficit cannot be covered by imports. Shortages of certain foodstuffs and manufactured articles often develop, at times because the increase in the supply has not kept pace with a growing demand, at other times because the supply itself is actually smaller.

According to official statistics per capita consumption of cigars, cigarettes, beer, coffee, fish, sugar and wheat flour rose substantially, while that of meat, milk and cheese increased moderately. On the other hand, the consumption of tropical and semi-tropical fruits fell sharply and that of fats, eggs and cocoa declined. Although figures are lacking, the quantity, variety and quality of all available fruit and vegetables has markedly declined owing to the general reduction of imports from

21. These totals are calculated from the rise in savings deposits in savings and other banks, the increase in capital investments by life insurance companies, and the volume of security purchases by the public, excluding securities placed with banks, savings banks, insurance companies and similar institutions. Cf. Reichs-Kredit-Gesellschaft, *Germany's Economic Development during the first half of the Year 1938*, p. 69.

22. Up to the end of November 1938 deposits in savings banks had risen 1,371 million marks, as compared with 1,120 million during the same period of the preceding year. Capital investments of life insurance companies had increased 521 million marks up to the end of October 1938, as compared with 492 million for the corresponding period of 1937. Cf. *Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, cited, p. 98; also Institut für Konjunkturforschung, *Statistik des In- und Auslands, 1938-1939*, No. 3, p. 72.

23. In 1937 production of consumers' goods, including textiles, shoes, household articles and foodstuffs constituted only 37.1 per cent of the estimated value of total industrial output, as against 47.4 per cent in 1932 and 43.5 per cent in 1929. Cf. *Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, cited, p. 9.

such countries as the United States and The Netherlands. Limited data for last year indicate some further increase in the consumption of meat, sugar and tobacco.²⁴ Owing to failure of the domestic harvest, the supply of fruit in 1938 became smaller, while a 15 per cent reduction in butter rations in the fall indicates that the consumption of fats must also have declined further. Symptomatic of the general situation was the sudden shortage of coffee which developed toward the end of 1938 because of disturbed trade relations with Brazil.

PER CAPITA CONSUMPTION IN 1937*
(Percentage change)

	Compared to 1932	Compared to 1929
Meat	+ 9.0	+ 2.2
Fish	+39.0	+32.7
Milk	+ 5.7	- 5.2
Cheese	+ 9.6
Eggs	- 8.0	-13.5
Wheat flour	+25.0	+ 3.9
Rye flour	+ 2.0	+ 4.3
Potatoes	- 9.0	+ 1.2
Tropical fruits	-27.5	-25.7
Sugar	+19.0	+ 2.5
Cocoa	- 5.6	- 5.6
Coffee	+22.0	+10.5
Fats	- 8.5	- 6.1
Beer	+22.0	-18.2
Cigars	+52.0	+20.5
Cigarettes	+24.0	+17.1

*Compiled from *Wirtschaft und Statistik*, No. 6, 1938, and *Statistisches Jahrbuch für das deutsche Reich*, 1937, p. 362.

These official figures are in some respects deceiving. The statistics do not in reality show consumption, but only amounts available from domestic production and imports. They thus fail to take into account certain reserves which have admittedly been accumulated for war purposes at the expense of current consumption.²⁵ In a number of instances their accuracy is doubtful. For example, the figures on fat supply are based on the rather dubious assumption that domestic production of butter has risen from 419,000 tons in 1932 to 516,000 in 1937.²⁶⁻²⁷ That the statistics on milk output are inaccurate is suggested by the fact that there was

no indicated decline in production in the first three-quarters of 1938 despite a serious and widespread outbreak of hoof and mouth disease among cattle. It must also be noted that the figure on cheese consumption fails to take into account the marked shift which has taken place from fatty cheese to the much less nutritious lean cheese. Nor should it be forgotten that the rise in flour consumption was at least partially obtained by raising the extraction rate of flour from grain.

While the food supply has been irregular and unsatisfactory, other products have been more readily available. In the first three-quarters of 1938 the production of textiles, shoes and household goods was 43 per cent higher than in 1932.²⁸ Although difficulties were experienced earlier in obtaining sufficient foreign cotton and wool for textiles and clothing, the development of domestic materials, together with increased imports, have relieved the stringency and made possible a considerable rise in output during the last two years. At the same time the quality has deteriorated.

The increase in purchasing power was also reflected by a sharp rise in the number of passenger automobiles owned and registered in Germany. At the middle of 1938 the total stood at 1,305,608, as compared to 486,000 six years before.²⁹ To realize Hitler's pet project of "motorizing" the German people, the official Labor Front began in 1938 the construction of a huge automobile works which will turn out an economic, small popular car at a price of only 990 Reichsmarks (about \$235—at the old rate of exchange). It is planned to step up production, which will start in 1940 with 100,000 cars, to as many as 1,500,000 a year by 1946.³⁰

The enormous amount of public construction—roads, barracks, public buildings and fortifications—have prevented adequate measures to relieve the serious housing shortage which developed following the decline in building during the depression. Although the number of new homes made available through new construction and conversion has increased almost constantly since 1932, it has not kept pace with the marriage rate.³¹ In the last few years the shortage of building materials and labor has induced the government to concentrate primar-

24. *Statistical Supplement, Weekly Report of the German Institute for Business Research*, January 11, 1939.

25. At the Nuremberg Party Congress last September, Goering boasted that Germany had stored fat adequate for 7½ months, and possessed large stocks of meat and fish conserves. Cf. *Völkischer Beobachter*, September 11, 1938.

26-27. It is acknowledged that dairy statistics are not altogether reliable. (Cf. "Die Grundlagen einer laufenden Statistik des Verbrauchs an Nahrungs- und Genussmittel," *Vierteljahrshefte zur Statistik des deutschen Reichs*, No. 1, 1937). Although butter output was probably raised at the expense of cream and fatty cheese, the increase was apparently not as large as indicated, especially since milk production rose less than 6 per cent. (For figures on milk production, cf. *Halbjahrsberichte zur Wirtschaftslage*, 1938-1939, No. 2, cited, p. 137).

28. Cf. *Deutschlands Wirtschaftliche Lage an der Jahreswende*, 1938-1939, cited, p. 22.

29. *Vierteljahrshefte zur Statistik des deutschen Reichs*, No. 3, 1938.

30. *Frankfurter Zeitung*, June 26, 1938.

31. From 1933 to 1937 there was a net increase of only 1,333,000 dwellings as against 3,259,000 marriages. The number of new homes made available rose from 54,000 in 1932 to 144,000 in 1937, and totaled some 83,000 in the first nine months of 1938. Cf. *Deutschlands Wirtschaftliche Lage an der Jahreswende*, 1938-1939, cited, p. 15.

ily on the promotion of housing for the laboring classes. At present a deficit of 1,500,000 homes is still reported.³²

NEW TERRITORY: NEW PROBLEMS

So far, this report has been confined to the Reich as it existed early in 1938. The past year, however, has added about 112,000 square kilometers and 10.5 million people, thus increasing the area of the Reich by 23.8 per cent and its population by 15.5 per cent.³³ While the acquisition of Austria and Sudeten Germany undoubtedly enhanced the political strength of the Third Reich and its economic bargaining power, particularly with respect to southeastern Europe, it imposed new and heavy burdens on the country's resources. Large sums have been spent to relieve unemployment in these regions and to mobilize their productive energy. Many were put to work constructing roads, airports and barracks, filling government orders for armament and uniforms, and exploiting raw material resources. In Austria the total registered as unemployed fell from 404,000 at the end of April to 113,000 at the end of November 1938.³⁴ Only in Vienna is unemployment still acute, because its clothing and luxury goods industries have always depended greatly on export trade. For the same reason unemployment in the heavily industrialized regions of the Sudeten territory, estimated at 196,000 in November,³⁵ has been difficult to reduce.

The price levels of Austria and Sudeten Germany, both comparatively low, had to be adjusted to that of the Reich without causing too much hardship. The Austrian shilling and the Czech crown were converted into marks at such a rate as to involve a simultaneous all-round appreciation in prices, wages, salaries and pensions of 36 per cent in Austria and 39.5 per cent in Sudeten Germany. While this was done in the interest of those earning wages and salaries, who otherwise would have suffered from a rapid rise in the cost of living, it greatly handicapped exports and in many cases imposed on industrialists the burden of making a downward readjustment of prices to meet the competition of concerns in the Reich.

The union of these two territories with Germany aggravated the lack of balance in the country's economic structure. Judged by available resources, the

Reich now has "more people" and "less room." The Sudetenland and Austria both have a proportionately greater deficit of raw materials and foodstuffs than the old Germany. Whereas the Reich can supply about 82 per cent of its total food requirements, Austria can cover only 74 per cent of its own needs and Sudeten Germany probably still less. In 1936 Austria purchased half of its raw materials abroad; the Reich only one-fifth. Austria is self-sufficient in potatoes and sugar and has small surpluses of milk, butter and cheese, which are achieved, however, only with the aid of imported feed.³⁶ It must import about 40 per cent of its wheat³⁷ and a considerable portion of its meat, fruit, vegetables, and fats other than butter. The Sudeten territory can supply less than half of its consumption of fats, only two-thirds of its milk requirements, and needs to import meat as well as a substantial quantity (150,000 tons) of wheat. Its small deficit in sugar and potatoes can probably be covered out of the Reich's surplus production.³⁸

Although generally poor in natural wealth, Austria and the Sudetenland can make some contributions to the economy of Greater Germany. Austria possesses the largest supply of magnesite in the world, and its iron deposits are estimated at 219 million tons, with an iron content of approximately 77.4 million.³⁹ Its zinc deposits are also of some value.⁴⁰ Its water power should prove a very important asset to the Reich. The Sudeten territory contributes valuable uranium and radium ores, as well as brown coal deposits which add about 12 billion tons to Germany's estimated supply of 59 billion.⁴¹ The two countries together add greatly to Germany's timber resources. Greater Germany now has a forest area of 16.79 million hectares, as compared with 12.71 million before. Although Austria's surplus lumber will in the immediate future be largely absorbed by its own increased requirements and long-term export contracts, the Sudetenland should be able to make some contribution to the Reich's timber deficit.⁴²

32. *Ibid.*

33. Cf. *Wirtschaft und Statistik*, No. 21, 1938. The total area of Greater Germany is now 582,775 square kilometers, the population 78,710,000.

34. *Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, cited, p. 56.

35. *Ibid.*, p. 57.

36. Cf. Ernst K. Ferchtinger, "Die Eingliederung der österreichischen landwirtschaft," *Der Vierjahresplan*, December 1938.

37. In the crop years 1936-1937, Austria supplied 66.7 per cent of its bread grain (wheat and rye) and 68.2 per cent of its feed grain requirements. Cf. Reichs-Kredit-Gesellschaft, *Deutschlands Wirtschaftliche Lage im ersten Halbjahr, 1938*, p. 35.

38. Cf. *Das Sudetenland im deutschen Wirtschaftsraum*, published by the Deutsche Bank, p. 27.

39. *Osterreich im deutschen Wirtschaftsraum*, published by the Deutsche Bank, p. 12.

40. In 1936 Austrian mines produced 111,900 tons of zinc ore—a little more than half the output of the Reich.

41. *Das Sudetenland im deutschen Wirtschaftsraum*, cited, p. 18.

42. *Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, cited, p. 50.

The acquisition of new territory has greatly expanded the capacity of Germany's consumers' goods industries at a time when these were not fully employed even in the Reich. In Austria the clothing, textile and luxury industries are to some extent balanced by increased steel and machine production, but the Sudeten German output consists almost exclusively of textiles and clothing, glass, porcelain and similar products. A large portion of these goods were marketed abroad. The Sudeten textile and clothing industry alone employed over one-third of those engaged in non-agricultural pursuits. The textile industry imported 90 per cent of its raw materials and sold 65-70 per cent of its output abroad. About two-thirds of the production of porcelain and table glass was also exported. The anti-German boycott now handicaps the sale of all these products. The Reich therefore faces a serious problem of readjustment. It must either revive the export demand for these goods or convert these industries to production for the home market.

THE "PRODUCTION BATTLE" IN AGRICULTURE

The increased raw material and food deficit of the Reich makes it all the more imperative to raise domestic production as far as possible and to stimulate the export of manufactured goods. In 1934 a "production battle" was inaugurated for agriculture, and in the fall of 1936 a Four Year Plan was launched to increase the output of native and synthetic raw materials.

The volume of agricultural production in the five-year period 1933-1934 to 1937-1938 averaged 15 per cent above the level of the preceding five years.⁴³ Large sums have been spent on land reclamation and improvement, but the acreage affected has been smaller than the area taken for airports, roads, buildings and other purposes connected with rearmament.⁴⁴ Increased use of fertilizers⁴⁵ has been encouraged by a drastic slash in prices, and farmers have been persuaded to employ more machinery to meet the shortage of labor.⁴⁶ Special ef-

forts have been made to raise the production of feed, particularly feeds rich in protein, in which Germany has always been greatly deficient. New feeds such as dried sugar-beet leaves were developed, and the acreage in sugar beets was expanded from 271,000 hectares in 1932 to 494,000 in 1938.⁴⁷⁻⁴⁸ The construction of silos was subsidized to make possible the preservation of fodder crops and potatoes for feeding.⁴⁹ In this way the Reich was able, despite the limitation of feed imports, to maintain, and even slightly to raise, the production of meat, milk and butter. According to some experts, however, the shift from imported feeds, rich in protein, to domestic, starchy feeds such as potatoes has brought about a pronounced deterioration in the quality of German livestock.

For a time unfavorable weather conditions, causing a series of mediocre grain harvests, threatened the "production battle" with disaster. The record grain crops of 1932 and 1933 tided the country over for some time, but in 1936 it proved necessary to prohibit the use of rye as feed in order to safeguard the supply of bread flour. The admixture of corn and potato flour to bread also became necessary. Fortunately for the Reich, extraordinarily large harvests of potatoes and beets in 1937 enabled the farmers to dispense more easily with rye as feed. Even so, imports of grain had to be increased heavily during the last two crop years. In 1937-1938 this entailed the expenditure of almost 402 million Reichsmarks in foreign exchange—a heavy burden on Germany's balance of international payments. In 1938 relief came in the form of an excellent harvest. The wheat and rye crops yielded 13,965,000 tons, compared to a consumption of only 10,566,000 tons in 1937-1938. The yield in feed grains amounted to 11,886,000 tons—almost equal to the 12,031,000 tons consumed in the previous year.⁵⁰ Together with the carry-over, which increased to 3.2 million tons owing to larger imports, the total grain tonnage available for 1938-1939 exceeds the combined needs of Germany and Austria. In addition, the Reich continued to buy heavily abroad during the first months of the current crop year—apparently in anticipation of war needs.

The prospects for a continued increase in agricultural output is not encouraging. Through increased use of fertilizer and an improvement of farming methods it may be possible to raise production in

43. Cf. *Halbjahrsberichte zur Wirtschaftslage, 1938-1939*, Heft 2, cited, p. 138. It should be noted that this increase was part of a long-term trend. For instance, the output from 1928-1929 to 1932-1933 averaged 16 per cent higher than that of the previous four years.

44. The total land improved for cultivation amounted to 536,000 hectares, that taken for other purposes to 650,000 hectares. Cf. Herbert Backe, "Der Stand der Erzeugungsschlacht," *Der Vierjahresplan*, November 1938.

45. In 1937-1938 2,479,000 tons of fertilizers (nitrates, phosphates and potash) were used, compared to 1,729,000 tons in 1928-1929. Cf. "Zur Lage der Landwirtschaft," *Wirtschaft und Statistik*, No. 18, 1938.

46. Expenditures for new machinery and tools rose from RM 138,000,000 in 1932-1933 to RM 463,000,000 in 1937-1938. *Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, cited, p. 45.

47-48. Institut für Konjunkturforschung, *Halbjahrsbericht zur Wirtschaftslage, 1938-1939*, Heft 1, cited, p. 28, and *Wirtschaft und Statistik*, No. 15, 1938.

49. The capacity of such feed silos almost tripled from 1932 to 1937 and amounted in the latter year to 6.7 million cubic metres. Cf. "Zur Lage der Landwirtschaft," cited.

50. *Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, cited, p. 39.

Austria, where yields are generally inferior to those in the neighboring province of Bavaria.⁵¹ In the Reich itself the outlook is less favorable. The area of cultivable land can hardly be extended, and intensification of production is rapidly approaching the limit. A serious shortage of farm labor greatly handicaps the "production battle."⁵² The German farmer and his family had to work harder and to spend more money for wages, equipment, fertilizer, etc., while their net cash income has not increased during the last four years.⁵³ Although a sharp rise in the prices of farm products and a reduction in interest and tax burdens substantially improved the lot of the farmer during the first years of National Socialism,⁵⁴ he has subsequently been compelled to shoulder the chief burden of the "production battle" without much benefit to himself. According to the Minister of Agriculture, at least 700,000 workers deserted agriculture in favor of industry and trade from 1933 to 1938⁵⁵—a loss only partially compensated by the renewed importation of several hundred thousand seasonal farm laborers from Italy, Poland and other countries.⁵⁶ The German farmer might be able to overcome this labor shortage and increase his output through greater utilization of machinery, yet the small size of his landholding and his limited cash resources generally militate against mechanization. Moreover, the fact that some 700,000 farms falling under the Hereditary Farm Law can no longer be sold for failure to pay debts makes it difficult for the farmer to obtain credit for financing improvements. Huge subsidies and compulsory amalgamation of landholdings to make possible communal farming by machinery have been suggested as one way out.⁵⁷ As yet, this remedy smacks too strongly of "bolshevism."

THE FOUR YEAR PLAN—MORE DOMESTIC RAW MATERIALS

On the whole, more success has been achieved with the Four Year Plan. Not only have all the

51. Ferchtinger, "Die Eingliederung der österreichischen Landwirtschaft," cited.

52. Cf. *Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, cited, p. 49.

53. The total expenditures of German farmers for wages, taxes, interest and "means of production" rose from 5,670 million Reichsmarks in 1934-1935 to 6,884 million in 1937-1938. In the same period their net cash income rose only slightly—from 2,235 to 2,268 million. *Ibid.*, p. 47.

54. Cf. John C. deWilde, "Social Trends in the Third Reich," *Foreign Policy Reports*, May 1, 1937.

55. Speech delivered before the National Socialist Farm Congress at Goslar on November 27, 1938.

56. In 1937 the number of seasonal foreign laborers employed rose to about 120,000; in the following year the total was considerably larger. Cf. *Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, cited, p. 54.

57. Cf. Ludwig Hermann, *So steht es um die Landwirtschaft* (Stuttgart, Union Deutsche Verlagsanstalt, 1938).

natural resources of the country been more intensively exploited, but synthetic substitutes developed for materials formerly imported. In the textile field, for example, efforts were made to grow more flax and hemp at home and to increase the number of sheep; and, at the same time, the production of staple fibre and rayon, both derived from wood, was encouraged. The most remarkable progress was made in the output of staple fibre. Many different types of this fibre have been developed: the so-called B-types for admixture to cotton and linen and as a substitute for jute, the W-types for admixture to wool.⁵⁸⁻⁵⁹ The quality and properties of the fibre have been greatly improved, so that it is now used with particular success for drapes, decorative and upholstery fabrics, and women's clothing. Because of its inferior resistance to water, it cannot as yet successfully replace cotton in fabrics which must be washed frequently.⁶⁰ The total output of staple fibre rose to about 150,000 tons in 1938, and is expected to attain 200,000 tons in the current year. Rayon production has also shown a continuous increase. In addition, improvement in spinning and weaving technique have permitted more extensive use of cotton and wool waste. The output of all domestic textile materials together amounted to 291,400 tons in 1937 and an estimated total of 362,500 in 1938.⁶¹ It represented 29 per cent of Germany's requirements in 1937, as compared with 13 per cent in 1932.⁶² The increased use of textile waste and staple fibre has undoubtedly involved a depreciation in quality.

OUTPUT OF DOMESTIC TEXTILE MATERIALS* (in tons)

	1933	1937	1938 (est.)
Wool	5,200	7,100	7,400
Hemp	200	6,800	10,000
Flax	3,200	34,000	28,000
Rayon	28,700	57,500	65,000
Staple fibre	5,400	102,000	150,000

*Compiled from figures in *Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, cited, p. 22, and *Halbjahrsberichte zur Wirtschaftslage, 1938-1939*, Heft 1, pp. 53-55.

More intensive exploitation of German mineral resources has yielded some results. In order to utilize more German iron ore, the supply of which is estimated at 721 million tons with an iron con-

58-59. Friedrich Sarow, "Zellwolle," *Die Wirtschaftskurve*, No. III, 1938.

60. Recent reports indicate progress is being made in overcoming this disadvantage. Cf. *Wir vom Glanzstoff, Werkzeitschrift für die Angehörigen der Glanzstoff-Betriebe*, special number, August 1938; also *Frankfurter Zeitung* ("Industrielle Textilfasern"), January 22, 1939.

61. *Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, cited, p. 22.

62. Rudolf Eicke, *Warum Aussenhandel?* (Berlin, Verlag für Sozialpolitik und Statistik, 1938), p. 66.

tent of 238 million tons,⁶³ the government did not hesitate to found its own company, the Hermann Göring Works, in July 1937.⁶⁴ This new company has taken over all the undeveloped ore deposits in Germany. It will not confine itself to mining ore, but is constructing two huge iron and steel plants—one near Brunswick in central Germany, the other at Linz in Austria—which are expected to start production in 1940. In addition, it has acquired majority control of a number of metallurgical and machinery concerns, as well as the Danube Steamship Company, so that it already rivals the biggest private industrial combines in Germany.⁶⁵

Hitherto the use of German ore has been handicapped by its high acid and low lime content, which necessitates the use of much larger quantities of coke and lime in blast furnaces. The Hermann Göring Works, however, are expected to use a special acid-smelting process which has already been successfully applied in England. Already German ore accounts for 25 per cent of the Reich's consumption. As will be seen from the accompanying table, the total iron ore mined has risen substantially. Taking into consideration the production of Austria, where the output is expected to reach three million tons in 1939, the Reich may need slightly less foreign ore in the future.

PRODUCTION OF IRON ORE
(1,000 tons)*

Year	Germany without Austria		Austria	
	Ore	Iron Content	Ore	Iron Content
1929	6,374	2,080	1,891	—
1932	1,340	443	307	107
1937	9,792	2,759	1,885	672
1938 (9 mos.)	8,198	—	1,972	—

**Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, cited, p. 17.

As for the non-ferrous metals, it proved impossible, in view of the poverty of German resources, to increase the output of domestic copper and tin, or to increase substantially that of lead.⁶⁶ In 1937

63. This compares with 6,830 million tons (iron content 2,664 million) for France; 5,970 million (iron content 1,970 million) for Britain; and 10,425 million (iron content 4,912 million) for the United States. Cf. Hans Ilau, "Die Reichswerke A. G. 'Hermann Goering,'" *Die Wirtschaftskurve*, No. 1, 1938.

64. Its capital, originally fixed at 5 million Reichsmarks, was subsequently raised to 400 million. Of 270 million Reichsmarks in common shares, the government has retained 245 million. The metallurgical industry was compelled to purchase the major portion of the 130 million marks in preferential shares. Cf. *Frankfurter Zeitung*, June 23, 1938.

65. Cf. Karl Schattendorf, "Konzern Hermann Göring-Werke," *Der Wirtschafts-Ring*, December 23, 1938.

66. The copper content of the ore mined in 1937—27,000 tons—was actually 4,000 tons less than in 1932. The lead ore production, in terms of lead content, rose from 51,000 to 79,000 tons. *Ibid.*

Germany produced only 10 per cent of its copper and 73 per cent of its lead requirements. Domestic tin ore accounted for only 12 per cent of Germany's consumption, but tin scrap contributed an additional 43 per cent. The government expects, however, that the production of zinc, which covered 77 per cent of the Reich's needs in 1937, will meet Greater Germany's demand by 1940.⁶⁷

Conspicuous success has attended the Reich's efforts to increase production of the light metals which, in various alloys, have been widely used to replace copper, tin, zinc and steel. Aluminum production soared from 19,200 tons in 1932 to 127,500 in 1937.⁶⁸ Although the raw material—bauxite—is imported, its cost represents only 7 per cent of the final price of the product. The output of magnesium marketed chiefly in the form of alloys known as *elektron* and *magnewin*, has also gone up rapidly—from 1,000 tons in 1933 to 14,000 tons in 1937. This total represented over half of the world's production.⁶⁹

One of the aims of the Four Year Plan has been to step up the manufacture of synthetic resins and plastics like bakelite, all derived from a wood or coal base. Synthetic resins have almost completely displaced foreign shellac and glues.⁷⁰ Various plastics have found widespread use in the place of wood and metals in telephones, radio sets, office and household articles, musical and optical instruments, and pipes.⁷¹

Much effort and money has been spent to overcome Germany's serious deficiency in mineral oil and rubber. To obtain an adequate supply of these two commodities for the growing needs of the country's armament and motorization programs has been a difficult task. Largely as the result of government subsidized boring, new oil fields were discovered and the production of natural crude oil rose from 214,011 tons in 1932 to 453,000 in 1937 and approximately 600,000 in 1938.⁷² The output of benzol, a by-product of coke used in the manufacture of benzine, rose to 430,000 tons in 1937 and probably attained 500,000 tons in 1938.⁷³ Germany's chief reliance, however, has been the exploitation of vari-

67. Max Dreyer, *Grossdeutsche Wirtschaft, ein Tatsachenbericht in Wort, Zahl und Bild* (Berlin, Verlag für Politik und Wirtschaft, 1938), pp. 30-31.

68. *Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, cited, p. 18.

69. Dreyer, *Grossdeutsche Wirtschaft*, cited, p. 32.

70. K. Brandenburger, *Im Zeitalter der Kunststoffe* (Munich and Berlin, J. F. Lehmann Verlag, 1938), p. 31.

71. Eicke, *Warum Aussenhandel?* cited, pp. 71-72.

72. Cf. *Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, cited, p. 21; also *New York Times*, February 16, 1939.

73. *New York Times*, February 16, 1939.

ous processes for the extraction of oil from lignite and coal. Although official figures are lacking, the output of synthetic benzine in 1938 has been put at 1,300,000 tons.⁷⁴ Production of mineral oil from domestic materials of all kinds amounted to about 36 per cent of Germany's total consumption in 1937.⁷⁵ In 1938 the percentage was probably larger.

The manufacture of synthetic rubber, or *buna*, from coal and lime⁷⁶ has also made slow progress. To finance construction of the necessary plant and machinery the government imposed an import duty of 1.25 Reichsmarks per kilogram on natural rubber in May 1937, and has since changed the rate in such a way as to keep the domestic price at about 2.60 Reichsmarks per kilogram.⁷⁷ At present the production of *buna* is privately reported to be running at the rate of 20,000 to 25,000 tons a year. After the completion of the second plant now under construction, Germany should be able to supply about one-third of its consumption. In 1939 passenger cars are to be equipped with *buna* tires.⁷⁸ Some types of *buna* are actually superior to natural rubber in resistance to wear, heat and oil.

Obviously the Four Year Plan has cost much money. About its financing little is known. The direct charge on the public treasury has apparently been small. Subventions have been paid in some cases, and the state has partly financed the Hermann Göring Works and the construction of *buna* plants. In addition, it has defrayed the cost of much experimental work. The main burden, however, has been thrust upon private enterprise. Thus, textile concerns and coal producers were induced to finance staple fibre factories and mineral oil plants out of their own resources. Whenever outside capital was needed, the government helped to obtain it by guaranteeing bank credits or opening up the capital market for bond or share issues. In a number of instances the state concluded five- to ten-year contracts with the entrepreneur, guaranteeing him a price that would cover the cost of production,

74. *Ibid.*

75. *Halbjahrsberichte zur Wirtschaftslage, 1938-1939*, No. 1. PRODUCTION OF MINERAL OIL FROM DOMESTIC SOURCES

	In 1,000 tons	In percentage of domestic consumption
Benzine	1,230	52.5
Diesel oil	120	8.7
Kerosene oil	40	44.9
Fuel oil	320	40.5
Lubricants	140	25.9
TOTAL	1,850	35.9

76. For a description of the process, cf. Johannes Eckell, "Buna, der deutsche synthetische Kautschuk," *Der Vierjahresplan*, February 1937.

77. During the fiscal year 1937-1938 and the first half of 1938-1939 this duty yielded 188.5 million marks.

78. *Völkischer Beobachter*, January 26, 1939.

plus interest and amortization charges, as well as a definite profit. Often the government could guarantee him a market. For example, no difficulty has been experienced in selling staple fibre because the state limits imports of wool and cotton, specifies the employment of certain percentages of staple fibre in garments and other fabrics, and indirectly buys a considerable quantity for uniforms.⁷⁹

In so far as the price of Four Year Plan products is higher than that of the raw materials they replace, consumers have to shoulder the burden. Reliable data permitting price comparisons is scarce. Moreover, the value of a comparison between the prices of foreign and domestic materials is partially vitiated by the high value of the mark in relation to other currencies. For instance, if Germany should follow the example of other countries and devalue the mark by at least 40 per cent, the cost of foreign benzine, which now sells at approximately one-half the cost of the synthetic German products, would rise about 66 per cent. In many cases the cost of production has already been materially lowered. Thus the price of the usual B-type of staple fibre, which at the beginning of 1935 was 2 to 2.10 Reichsmarks per kilogram, was successively reduced to 1.45 on September 1, 1937.⁸⁰⁻⁸¹

GERMANY'S FOREIGN TRADE DILEMMA

Whatever the ultimate success of the Four Year Plan, it has undoubtedly contributed for the moment to the strain under which the German economy is laboring. It has required several billion marks in additional capital, much labor, and large quantities of material for plant and machinery. It would not be surprising if the large investments it has entailed have temporarily increased, rather than decreased the demand for foreign raw materials. Certainly the Plan has not prevented the development of a grave disparity between imports and exports, which constitutes the major and most difficult economic problem the German government faces today. In 1938 Greater Germany had an import surplus of 432,400,000 marks as compared with a favorable trade balance of 443,000,000 for the Reich in the previous year. This shift of 875,000,000 marks creates a serious dilemma for a country

79. Cf. "Methoden des Vierjahresplans," *Frankfurter Zeitung*, September 4, 1938.

80-81. "Zellwolle," cited. At this level it was, at the beginning of 1939, more than two and a half times the world market price of cotton which had meanwhile dropped rapidly in the last two years. Prices of the most widely used W-types, ranging from 1.80 to 2.30 Reichsmarks per kilogram, were reduced by 0.20 to 0.30 marks in July 1938. At this point they are considerably below the world market price for natural wool, which is about 2.40 Reichsmarks per kilogram.

which has largely exhausted its reserves of gold and foreign exchange.

From the very first the National Socialist régime has had difficulties in balancing its trade in such a way as to maintain an adequate supply of imports. With production constantly rising, the need of foreign raw materials and foodstuffs grew steadily. At the same time exports continued to decline until well along in 1935. Germany's original refusal to devalue the mark handicapped its sales abroad, and the fact that its exports consisted predominantly of manufactures made it particularly vulnerable to trade restrictions of all sorts. Moreover, industry found the domestic market so ample that it neglected the comparatively unprofitable export trade. Added to these factors was the boycott, which became particularly effective in the United States. It was not surprising, therefore, that the terms on which Germany traded with other countries steadily deteriorated until the middle of 1937. Germans sold abroad at continuously declining prices, while the cost of their imports of raw materials and foodstuffs rose as economic recovery set in.⁸²

Under these adverse circumstances, Germany's favorable trade balance of the depression years was rapidly converted into an import surplus of 284,000,000 marks in 1934. Despite the progressive restriction of payments on German foreign debts, the gold and foreign exchange holdings of the Reichsbank had dropped to 84,000,000 Reichsmarks at the end of that year. To remedy this situation Dr. Schacht, head of the Reichsbank, applied his so-called New Plan under which the volume of imports was limited to the current income of foreign exchange. Import control boards, ultimately numbering 28, restricted purchases abroad, as far as possible, to absolutely essential raw materials and foodstuffs, and carefully rationed the supply. These boards centralized the country's purchasing power abroad and caused goods to be bought primarily from countries which would undertake to accept German products in exchange. Beginning with 1935, exports were directly subsidized from an annual fund of about 750,000,000 marks collected from German industry. Sales to Latin America and, to a certain extent, to the United States were also promoted through the use of so-called ASKI marks. These marks, representing blocked payments for exports to Germany, could be used only to buy German goods, and therefore sold at a considerable discount.⁸³

If the New Plan proved successful in operation,

82. Cf. *Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, cited, p. 113.

83. For a more detailed review of these developments, cf. deWilde, "The German Economic Dilemma," cited.

it was largely because economic revival abroad was instrumental in raising exports, from a low of 4,617,000,000 marks in 1934 to 5,911,000,000 in 1937. In the three-year period 1935 to 1937, Germany enjoyed an aggregate export surplus of 1,104,000,000 marks. Yet the Plan had serious disadvantages as well. In carrying out its policy of "buying only from those who buy from us," the Reich often had to pay higher prices for its raw materials and foodstuffs.⁸⁴ Germany could no longer sell in the dearest market and buy in the cheapest. There was a drastic shift in the customary channels of foreign trade, the Reich utilizing its heavy purchases as a weapon to compel countries producing raw materials and foodstuffs to buy more German manufactures. As the table on page 300 indicates, the combined share of the Near East, southeastern Europe and Latin America in German exports rose from 8.9 per cent in 1932 to 24.7 per cent in 1937, while their contribution to Germany's imports increased from 17.1 to 29.4 per cent. The share of the British Dominions and the Baltic and Scandinavian countries also rose. On the other hand, business with Western Europe, Britain and the United States languished. Political factors accounted for a severe decline in Soviet-German trade.

That the German trade balance turned heavily unfavorable in 1938 was partially due to the acquisition of Austria and Sudeten Germany. Austria alone had a deficit of 240,400,000 marks since Anschluss; and the Sudeten territory, whose trade was incorporated with Germany's returns in October, probably accounted for part of the Reich's import surplus of 192,000,000 marks. Yet the trade balance would have continued favorable despite this factor had not a renewed depression abroad cut heavily into Germany's exports at a time when booming business conditions at home necessitated more rather than fewer imports. The value of German exports, excluding those from Austria, dropped 11 per cent in 1938, while expenditures for imports remained about the same. The import surplus would have been much larger if the terms of trade had not changed in Germany's favor at the same time. With the raw materials market depressed, import prices declined more rapidly than those of exports, so that the volume of German purchases was actually about 10 per cent higher than in 1937.

While the Reich still has some reserves in foreign

84. For example, during the first half of 1938, when wheat was bringing only RM 1.18 per kilogram, on the world market, Germany was buying wheat in southeastern Europe at prices ranging from RM 1.43 to RM 1.60. Cf. Lothar Mischke, "Der Nahrungsmittelbedarf in der Einfuhrplanung," *Der deutsche Volkswirt*, October 14, 1938.

DISTRIBUTION OF GERMANY'S FOREIGN TRADE*

	Percentage Share in German Exports				Percentage Share in German Imports			
	1929	1932	1937	1938 (9 mos.)	1929	1932	1937	1938 (9 mos.)
Southeastern Europe	4.3	3.5	9.4	10.1	3.8	5.0	10.5	8.9
Near East, including Turkey and Egypt	1.4	1.3	4.3	5.3	1.4	2.5	3.4	3.3
Latin America	7.3	4.1	11.0	12.2	11.4	9.6	15.5	15.5
Scandinavia, including Finland	10.2	9.4	12.1	12.6	7.3	6.4	10.2	11.8
Baltic countries, including Poland	4.6	2.6	2.8	4.2	4.1	3.1	3.1	3.3
British Dominions	3.9	3.9	5.3	5.6	10.6	8.3	7.7	7.6
Colonial Africa	1.0	0.7	1.6	1.5	3.3	3.5	4.7	4.1
Eastern Asia	5.1	3.8	6.1	5.6	6.4	7.4	6.6	7.5
Italy and colonies	4.5	3.9	5.3	6.0	3.3	3.9	4.1	4.6
Spain and Portugal	2.1	2.1	1.6	2.5	2.2	2.4	2.3	2.4
Low Countries, France and Switzerland	26.2	31.9	21.8	21.3	15.7	15.1	12.2	11.8
Great Britain	9.7	7.8	7.3	6.8	6.4	5.5	5.7	5.2
United States	7.4	4.9	3.5	2.7	13.3	12.7	5.2	7.5
Soviet Union	2.6	10.9	2.0	0.5	3.2	5.8	1.2	0.9
Czechoslovakia	4.9	4.4	2.6	2.4	3.6	3.0	2.6	2.7
Austria	3.3	2.8	2.1	...	1.5	1.4	1.7	...

*Taken from *Weekly Report*, German Institute for Business Research, January 11, 1939.

exchange and gold outside the Reichsbank, it cannot afford an import surplus of the present dimensions over a long period of time. From Austria it obtained a gold and exchange supply amounting to 208,000,000 Reichsmarks and additional foreign security holdings conservatively estimated at 300,000,000 marks. This reserve has probably not yet been exhausted, especially since trade statistics reveal net gold exports of only 53,700,000 marks in the first ten months of 1938. Although the export surplus of previous years was probably used to make debt payments, which continued at the rate of 250,000,000 marks per year, and to reduce net liabilities on clearing accounts,⁸⁵ it is not clear what happened to the proceeds from the sale of Germany's remaining holdings of foreign securities during these years. These holdings, which were mobilized in 1936-1937 and were conservatively estimated at 800 million marks, are supposed to have been almost completely liquidated. It is equally difficult to account for the reduction of \$120,439,000 which took place in Germany's short-term banking funds in the United States from January 1935 to September 1938.⁸⁶ Net purchases of securities account for only \$11,453,000. The balance, equalling 272,465,000 marks, must have been used either to constitute a reserve fund, or—what appears more

likely—to finance imports for war purposes which never appeared in the official trade statistics.

Germany's reserves, however, are probably inadequate to cover another trade deficit like that of 1938. Since a further reduction in Germany's payments on foreign debts also seems impossible,⁸⁷ the Reich faces the imperative task of cutting down the deficit by curtailing imports or increasing exports.

It may prove possible to reduce imports slightly during the current year. The excellent grain harvest of 1938 may enable the Reich to dispense with at least part of its purchases of grain and grain products, which cost 401,700,000 marks in 1937-1938. The timber resources of its new territories and the iron resources of Austria may bring about some diminution in Germany's demand for foreign wood and iron ore. The Four Year Plan may contribute to a reduction of imports as and when its needs of material for plant and equipment decreases and the production capacity of its industries becomes fully utilized. To some extent Germany may be able to draw on existing stocks of raw materials which were replenished from increased imports during the last two years. In 1937 imports of raw materials and semi-finished goods were 15 and 13 per cent higher in volume than in the previous year; and during the first ten months of 1938 they were again 11 per cent

85. Cf. John C. deWilde, "Unfavorable Trade Balance Most Vulnerable Spot in German Economic Armor," *The Annalist*, February 22, 1939. Since some of Germany's export business is done on credit, the proceeds from exports during these years were actually less than those on paper.

86. Cf. U.S. Treasury Department, *Statistics of Capital Movements between the United States and Foreign Countries, and of Purchases and Sales of Foreign Exchange in the United States*, Third Quarter 1938, Report No. 9.

87. With the exception of the limited service of Dawes and Young Plan bonds in the United States, the debt payments still made by Germany are transferred through clearing accounts set up at the instance of Western European creditor countries which buy more from the Reich than they sell and are thus in the position to confiscate German export proceeds to satisfy debt claims. Moreover, settlements made on Austria's foreign debts are likely to increase, rather than decrease, Germany's transfer liabilities.

higher than for the corresponding period of 1937. Last year the raw material supply in a number of industries appears to have been generally easier than in 1936 and 1937, when acute shortages were chronic. Particularly in 1938 imports of wool, cotton, mineral oil, copper, chromium, nickel, lead and zinc seem to have been in excess of current consumption.⁸⁸ Additional stocks may have been bought abroad without being recorded in the import statistics. Yet any future reduction in the volume of imports may be offset, at least partially, by a recovery in prices of foreign raw materials.

Prospects for an expansion in German exports are even less favorable. Anti-Semitic excesses in the Reich have reinvigorated the boycott of German goods. Resentment at the Reich's barter trade methods have provoked counter-measures by other countries. The United States is preparing to contest Germany's rising share of the Latin-American markets, and the increase in Britain's export guaranty fund, together with signs of cooperative promotion of exports, point to keener British competition. The Anglo-American trade agreement and the recent drop in the value of the British pound may also affect the Reich's trade adversely.

On the other hand, the German government hopes that economic recovery abroad will stimulate Germany's sales despite the boycott. To an even greater extent than in the past, it will utilize the enormous purchasing power of a nation of almost 80,000,000 people as a lever to extract trade concessions. It will concentrate still more on the extension of barter and compensation trade. The Reich may also try to revive its trade with the Soviet Union. In November 1938 the Minister of Economics not only established an absolute priority in the allotment of raw materials to the manufacture of goods for export, but directed that government orders were to be distributed among industrial concerns in proportion to the effort made by each in the promotion of foreign sales. While the govern-

ment still shrinks from devaluing the mark, which would raise the cost of imports, it may increase the export subsidy fund. Export quotas may also be assigned to each industry, and penalties imposed for failure to fulfil them. Any attempt to exclude Germany from the world's markets, Hitler warned on January 30, 1939, would find the country prepared for a "desperate economic struggle." The German nation, he declared, must "export or die."⁸⁹⁻⁹⁰

THE BURDEN OF FINANCE

Although the government is most seriously concerned about the foreign trade dilemma, the financial structure of Germany is also showing signs of strain under the heavy burden placed upon it. Until recently the Nazi régime had no great difficulty in finding the huge sums necessary for its many undertakings. During the first few years, when government income was low and the capital market drained of funds, it relied primarily on short-term borrowing. Entrepreneurs working on government contracts and orders were permitted to draw bills against the government or its agencies. These bills they could have discounted by banks which, in turn, could present them for rediscount to the Reichsbank. They were treated like commercial bills in all respects except that their maturity date could be repeatedly extended. Although these so-called "armament" and "employment-creation" bills tended to inflate the circulation of means of payment, the government considered such an inflation safe enough as long as it was accompanied by a corresponding increase in production and employment, and as long as prices were kept under firm control. The extent of financing by this method has never been known, for the bills have not been included in the Reich's official debt returns. It seems unlikely, however, that the outstanding amount of this type of short-term debt ever substantially exceeded 15 billion marks, particularly since the total sum of bills of every kind held by all German credit institutions was never above this amount.⁹¹

In recent years the Reich has been able to meet a larger proportion of its financial needs from current revenue. According to a reliable private German estimate, the total income of local and national governments and the Reich Labor Office rose from 14.9 billion marks in 1932-1933 to 24.2 billion in 1937-1938. For the current fiscal year ending

88. Imports of each of these commodities in the first ten months of 1937 and 1938 compare as follows:

	in 1,000 tons		Percentage increase
	1937	1938	
Wool	109.7	141.1	35.0
Cotton	276.5	308.5	11.5
Crude oil and tar	1,015.2	1,112.4	10.5
Motor fuel and lubricants	2,568.9	2,994.0	16.5
Copper ore	470.5	548.6	16.5
Copper	215.1	301.0	40.0
Chrome ore	104.9	135.6	29.0
Nickel ore	14.2	28.5	101.0
Lead ore	95.7	114.2	9.0
Lead	65.6	76.6	17.0
Zinc ore	79.0	149.4	89.0
Zinc	57.9	62.1	7.0
Tin	8.5	9.5	12.0

These figures are compiled from *Wirtschaft und Statistik*.

89-90. *New York Times*, January 31, 1939.

91. These bill holdings amounted to 14,587 million marks at the end of October 1938, as compared with 5,285 million in 1932 and 6,260 million in 1928. Cf. *Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, cited, p. 90.

March 31, 1939 the total is estimated at 28 billion. Income from customs and taxes alone will probably attain 22 billion in 1938-1939.⁹² In the five-year period 1932-1933 to 1937-1938, annual revenue from income taxes showed an increase of 3.7 billion; that from the levy on corporations, 1.4 billion. With the sharp rise in business activity the "crisis tax" rates, dating from the Brüning régime, yielded enormous returns. Although the collection of taxes was made stricter, the rates remained generally the same. The most conspicuous exception was the corporation tax. A law of August 27, 1936 raised the rate of this tax from 20 to 30 per cent; and another law, dated July 25, 1938 and applicable to corporations with an income in excess of 100,000 marks, increased it further to 35 per cent for 1938 and 40 per cent for the two subsequent years. Aside from all this revenue, the government had available the amount saved in unemployment relief expenditure. As more people were put back to work, the cost of unemployment assistance declined from 3.15 billion marks in 1932-1933 to an estimated sum of 750 million in 1937-1938.⁹³

With public expenditures rapidly growing, the current resources of the government have still had to be supplemented by large-scale borrowing. Although the short-term debt has continued to increase, the Reich has been able to float a large number of medium and long-term loans. From 1935 to 1938 inclusive such loans aggregated 15.6 billion marks.⁹⁴ At the end of October 1938 the officially acknowledged national government debt stood at 25,676 million marks, as against 11,275 million in March 1933. The entire public debt, including that of provincial and local governments, but excluding Austria, amounted to 39,161 million,⁹⁵ compared to 26,195 million at the end of the fiscal year 1932-1933. If the "secret" bill debt is added, the total becomes about 54 billion.

Public borrowing was greatly facilitated by a practical government monopoly of the capital market. Only a few private stock and bond issues have been permitted and those primarily in connection

with the Four Year Plan.⁹⁶ Limited investment requirements and large profits have enabled most industries to get along without resort to the capital market. When the Nazis came into power, the plant and equipment of German industry were generally in good condition, so that the need for new investment in the next few years was small. Industry was operating at extremely low capacity, but costs had been pared to the bone. When government spending began on a large scale and output rose rapidly, costs did not go up correspondingly despite the stability of prices, heavier taxation and a very moderate increase in wages. Large profits accumulated. Since the government restricted dividend payments, these earnings were "plowed back" into the business where they were used for new investments in plant and machinery, for the reduction of debts and the formation of reserves. The latter were again invested largely in government obligations.^{96a}

From all sources together—public borrowing, increased revenue and "savings" in unemployment assistance—the Nazi régime obtained during the five years ending March 1938 the total sum of 52.9 billion above the government's income level in 1932-1933.

SOURCES OF EXTRA GOVERNMENT EXPENDITURES⁹⁷

in five years ended March 31, 1938

	in billion marks
Increased current income	23.0
Savings in unemployment relief	7.4
Publicly acknowledged borrowing	7.5
"Secret" borrowing	15.0
TOTAL	52.9

Owing to a further increase in government borrowing and current revenue, this total should reach at least 72 billion marks by the end of the fiscal year 1938-1939. Thus governmental bodies of the Third Reich will have spent this huge amount in six years to defray the extraordinary costs of rearmament, public works and additional administrative expenses.

Recently the government has experienced greater difficulty in raising money. The year 1938 started

92. *Ibid.*, p. 101. Tax revenue has developed as follows (in billion marks):

Fiscal year	Reich	Provincial and Local	Total
1928-29	9.0	4.2	13.2
1932-33	6.6	3.6	10.2
1937-38	14.0	4.4	18.4
1938-39 (est.)	17.0	5.0	22.0

93. Otto Barberino, "Veränderte Struktur des öffentlichen Haushalts," *Der Wirtschafts-Ring*, July 22, 1938.

94. *Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, cited, p. 94.

95. The local and provincial public debt included in this total is of end March 1938. Since that time it does not appear to have increased.

96. Of 14,030 million marks in stock and bond issues from the beginning of 1933 to the end of September 1938, only 15 per cent were classified as private. *Ibid.*, p. 95.

96a. Cf. W. Prion, *Das deutsche Finanzwunder* (Berlin, Franke & Co., 1938), pp. 27-49.

97. Cf. John C. deWilde, "The 'Secret Debts' and other Aspects of the German Government's Financing," *The Analyst*, January 18, 1939. The net increase in officially acknowledged public indebtedness was only about 6 billion over the period in question, but the net amount derived from borrowing is greater because 1.5 billion of the decline in foreign indebtedness was due solely to the depreciation of foreign currencies.

with an apparent swing toward a more conservative financial policy. In April, following persistent pressure from Dr. Schacht, conservative head of the Reichsbank, the government ostensibly abandoned its practice of short-term bill financing. Instead, the Treasury proceeded to issue six-month "delivery" certificates in payment for government orders. As distinguished from "armament" bills, these certificates were not subject to extension on maturity or to rediscount by the Reichsbank. The amount issued was presumably limited by the Reich's ability to retire them from the proceeds of taxes and long-term loans. This policy might have worked satisfactorily had not the government's financial needs mounted steeply in 1938. Hundreds of millions of marks were spent for the rapid completion of fortifications in the Rhineland. Large sums were required to carry out measures of partial mobilization in March and September, and additional amounts were subsequently poured into Austria and Sudeten Germany. Under these circumstances, the amount of Treasury certificates issued—almost three billion marks up to the end of October—far exceeded the total originally contemplated.⁹⁸ Loans had to be floated in rapid succession, not only to cover maturity dates of these certificates, but to satisfy other demands for funds. At the same time the Reichsbank and its subsidiaries had to absorb large sums of old "armament" bills,⁹⁹ thus leading to a rapid increase in means of payment. Even after discounting the rise due to Austria and Sudeten Germany, the circulation of notes and coins at the end of November was 19 per cent higher than the year before¹⁰⁰—in contrast to an expansion in production of only 6 per cent.

While this phenomenon may not of itself spell great danger because prices are strictly controlled and a flight of capital is impossible, fears of inflation were quickened on January 20, 1939, when Chancellor Hitler replaced Dr. Schacht as head of the Reichsbank with Dr. Funk, Nazi Minister of Economics. To Funk was assigned the task of transforming the central bank "into a German bank of issue unconditionally subject to the sovereignty of the state, in conformity with National Socialist principles."¹⁰¹ At the same time, however, Hitler stressed that he would have to keep prices and

wages stable, and open up the capital market to private needs.

Whatever its intentions, the Reich government may have to resort to inflation unless it is willing to scale down its financial needs. While the size of the public debt—some 54 billion marks exclusive of Austrian indebtedness—is not alarmingly large in relation to national income, the pace of the increase appears to have been too rapid recently. The last loan, on which subscriptions closed January 9, 1939, was floated only with considerable difficulty. This year the government will probably not be able to obtain 6.7 billion marks through loans, as it did in 1938. Private enterprise will gradually need more outside capital. Many industries are operating in excess of the optimum capacity of production and entering a period of rising costs, and ultimately declining profits.¹⁰² Industry will no longer be able to finance replacement and extension of plant and equipment entirely out of its own resources. Nor will the government be able to look forward to a further substantial rise in revenue, now that the country's economy is employed at capacity. After imposition of the one-billion-mark fine on the Jews last November, the possibility of confiscating more Jewish property is limited. The Reich might take over property of the Catholic Church, but would have difficulty in liquidating it. It may also tax business more heavily and impose a capital levy, but business already bears a big burden. Unless the Reich wants to make its taxes confiscatory and take over industry, it must proceed cautiously in this direction. As an alternative, the Nazi régime might devote a larger portion of its expenditures to productive purposes which would increase the country's capacity to pay taxes. It can also—and this appears more likely—reduce consumption by the German people and tap off the resulting "enforced savings" through taxation or public borrowing.

APPEARANCE OF "BOTTLE-NECKS"

Stresses and strains are evident also at other points. Owing to the government's insatiable demands on the country's productive capacity, "bottle-necks" have appeared here and there, requiring official intervention. Recently the railway system, with a rolling stock less than in 1929, has hardly been able to meet greatly increased transportation requirements. The generating capacity of Germany's electric plants has been strained to the utmost in order to satisfy the growing need of power. Requirements of the armament program and the Four Year Plan have overtaxed the capacity of the

98. *Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, cited, p. 91.

99. From end March to end November 1938, bill holdings of the Reichsbank and its subsidiaries rose by 3,033 million marks. *Ibid.*, p. 89.

100. *Ibid.*, pp. 88-89.

101. *New York Times*, January 21, 1939.

102. Cf. *Deutschlands Wirtschaftliche Lage an der Jahreswende, 1938-1939*, cited, pp. 26-27.

construction industry and many branches of the machine industry. Because of the time and material required to fill government orders for armaments and other supplies, numerous plants have been unable to make adequate replacements in their equipment which, at the present rate of operation, is depreciating rapidly. A serious shortage of labor also handicaps production almost everywhere.

To overcome these difficulties the government has been compelled to adopt a series of measures interfering with freedom of enterprise and employment. Toward the end of 1938 it named "commissars" for the automobile, machine and construction industries. In January 1939 another was designated for the power industry. These commissars are to promote rationalization of production, provide for planned extension of capacity wherever it is most essential, and determine which orders in general are to have priority. Last December Dr. Funk received a similar delegation of power for Germany's entire industry. Labor has also been increasingly regimented. In February 1938 a decree forbade employment of single women under 25 in a number of industries and occupations unless they had worked for one year either in a household or on a farm. Subsequently—in January 1939—this prohibition was extended to all positions. In March 1938 all those leaving school were required to register at the official labor exchanges. The latter were authorized to prohibit the hiring of apprentices or even the employment of additional workers by specific concerns or branches of industry. By decree of June 22, 1938 the government was empowered to conscript labor for tasks of special political importance, and immediately made use of this authority to draft thousands of workers in all parts of the Reich for work on the western fortifications. In the same month the Reich Labor Trustees, who had hitherto only had the power to fix minimum working conditions, were given the right definitely to fix rates of compensation and employment. In December a number of industries were apparently given the right to exceed the 8-hour day without payment of overtime compensation. Finally, in February 1939, the Minister of Labor was authorized to make changes in jobs dependent on consent of the local labor office.

GERMANY'S UNCERTAIN ECONOMIC FUTURE

The growing difficulties with which the Reich has had to contend recently cast doubt on the fre-

quently heard boast of the Nazis that they have devised a "depression-proof" economy. While collapse is unlikely, there are short-term dangers which menace the regimented economic stability in Germany. The most immediate of these is the highly unfavorable development of the trade balance, which strikes at the vitals of German economic life—the supply of raw materials. It certainly suggests that Germany could not withstand concerted economic pressure applied by other countries over a prolonged period. A more remote danger, perhaps, is the strained condition of German finances. Continuation of the present rate of spending may ultimately lead to open inflation despite the tight control which the government exercises over wages and prices. Yet it is well to remember that the government can obtain more funds by reducing consumption and, in case of emergency, scale down its armament and public works program.

From the long-range point of view one may also question the stability of Nazi economy. Owing to the nature of government spending, a serious disproportion has developed between the capital goods and the consumers' goods industry. Should Germany return some day to more normal peace-time activity, this may prove to be a serious problem. The government's economic experts often talk of the necessity of ultimately returning to a régime of private enterprise, yet the measures they have meanwhile devised for the regimentation of business have gone far toward destroying that managerial talent and initiative which are a prerequisite for this change. Already government control of economic life has produced a welter of regulations involving the conduct of business in all sorts of bureaucratic restrictions which may ultimately produce stagnation. Up to the present, German business has been kept going largely by lavish government spending. When a reduction in such expenditures becomes imperative, Germany will face the serious problems involved in a transition from public to private enterprise. While the large, stored-up demand for housing, plant and equipment, and consumers' goods can provide Germany with plenty of work in such an eventuality, the change from one type of activity to another will entail difficult readjustment. It is then that the ingenuity of authoritarian economic methods will be put to a real test. Meanwhile, the Nazis have kept the Germans hard at work, but only at the expense of regimented consumption and the loss of individual freedom and enterprise.